

**CHATFIELD SCHOOL
LAPEER, MICHIGAN**

**FINANCIAL REPORT
WITH ADDITIONAL INFORMATION
JUNE 30, 2008**

CHATFIELD SCHOOL

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BROWN & KENT, P.C.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Board of Education
Chatfield School
Lapeer, Michigan 48446

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School (the "School"), Lapeer, Michigan, as of and for the year ended June 30, 2008, which collectively comprise Chatfield School's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis of our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School as of June 30, 2008 and the respective changes in financial position thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008, on our consideration of Chatfield School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered when assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements, but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying Other Supplemental Information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Other Supplemental Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brown & Kent, P.C.

Certified Public Accountants

October 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHATFIELD SCHOOL – LAPEER, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Chatfield School's (the "School"), annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

- The School's financial status remained stable, as total net assets increased more than 2.8 percent over the course of the year.
- Revenues decreased 2.6 percent to \$2.4 million while expenses decreased 4.7 percent to \$2.3 million.
- The primary source of funds for the Chatfield School is the State's Foundation Grant allocated on a per-pupil basis. Chatfield has steadily maintained its enrollment at the level approved by SVSU and the Department of Education. Each year the number of student applicants has exceeded the available vacancies. The total enrollment has been between 295 and 300 for the past five years. In April 2008, Chatfield's request to add grades seven and eight and to increase enrollment to 450 was approved by SVSU and the MDE. Enrollment for the September, 2008 Official Count Day was 446. This increase will significantly increase revenues from the State Foundation Grant, but additional enrollment will increase expenses and the School had to execute a \$2.3 million mortgage to finance construction for additional grades and students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations *in more detail* than the government-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the School acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School's budget for the year.

The following summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Major Features of Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the School administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, School's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include *all* of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's *net assets* and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional nonfinancial factors such as changes in the condition of School buildings and other facilities.

In the government-wide financial statements, the School's activities:

- *Governmental activities* – Most of the School's basic services are included here, such as regular and special education and administration. State formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School's *funds*, focusing on its most significant or "major" funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The School establishes other funds to control and manage money for particular purposes like building additions.

The School has two kinds of funds:

- *Governmental funds* – Most of the School's basic services are included in governmental funds, which generally focus on; (1) how *cash and other financial assets* can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The School is the trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government-wide financial statements, because the School cannot use these assets to finance its operations.

DISTRICT MANAGEMENT ACTIVITIES

- The School administrators and the Chatfield Board of Directors have consistently monitored expenditures each year to produce an annual positive cash balance (revenues exceeding expenditures); the goal for this careful monitoring is to create and maintain an unrestricted cash balance that will be adequate in future years for maintaining the building, renovating and refurbishing as necessary, and meeting contingencies that might develop either within the building or at the state funding level. The funds reserved for these purposes had increased each year and were sufficient for allowing the school board to allocate a portion of its fund balance to building improvements and expansion.
- The School administrators and the entire school staff maintain a purchasing evaluation and inventory analysis system that controls expenditures for supplies and materials. In-house routine maintenance and repair procedures minimize the cost of maintenance.
- Recognizing that the School's future stability and well-being is entirely dependent upon parents continuing to choose to enroll children at Chatfield, the School administrators, the School staff, and the School's board have collaborated extensively to create an exceptional school for children and to create a staff work environment that retains staff and provides teachers the opportunities to be effective, self-fulfilled professionals. The Chatfield School has been fortunate in hiring and retaining highly qualified teachers and ancillary staff. It is recognized that the percent of the budget allocated for salaries and benefits will have to be increased in the future to have staff compensation for its highly experienced and trained staff reasonably comparable to surrounding traditional public schools.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net assets – The School's *combined* net assets were larger on June 30, 2008, than they were the year before – increasing more than 2.8 percent to \$4.9 million.

Chatfield School's Net Assets

	2008	2007
Current and Other Assets	\$ 1,233,471	\$ 2,257,390
Capital Assets	5,537,611	2,684,310
Total Assets	6,771,082	4,941,700
Current Liabilities	316,510	133,162
Long-term Liabilities	1,508,417	-
Total Liabilities	1,824,927	133,162
Net Assets		
Invested in Capital Assets, Net of Related Debt	3,995,555	2,684,310
Restricted	44,227	55,588
Unrestricted	906,373	2,068,640
Total Net Assets	\$ 4,946,155	\$ 4,808,538

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (Continued)

Changes in Chatfield School's Net Assets

	<u>2008</u>	<u>2007</u>
Revenues		
Program Revenues		
Charges for Services	\$ 112,859	\$ 117,590
Federal and State Categorical Grants	114,561	226,268
General Revenues		
State Aid – Unrestricted	2,135,194	2,069,157
Other	78,519	94,917
Total Revenues	<u>2,441,133</u>	<u>2,507,932</u>
Expenses		
Instruction	1,305,845	1,379,273
Support Services	684,601	816,973
Community Services	198,717	134,228
Unallocated Depreciation	92,814	87,899
Interest	21,539	-
Total Expenses	<u>2,303,516</u>	<u>2,418,373</u>
Increase in Net Assets	<u>\$ 137,617</u>	<u>\$ 89,559</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The strong financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported *combined* fund balances of \$950,600, below last year's ending fund balances of \$2.12 million due to capital projects.

General Fund Budgetary Highlights

Over the course of the year, the School revised the annual operating budget several times. These budget amendments are:

- Changes made in the second and fourth quarters to account for changes in assumptions since the original budget was adopted.
- While the School's final budget for the general fund anticipated a decrease to Fund Balance of \$323,358, the actual results for the year show a \$116,702 decrease.
- Actual expenditures in 2007-08 were below amended budget estimates, because all expenditures were thoroughly reviewed and evaluated. The cost controlling in the past year were particularly necessary due to the uncertainty of the state's funding. The reductions were achieved without changing the basics of services to children and without imposing unreasonable expectations on staff. The Partners in Education (parents group) continuously helps by making substantial donations for technology, playground items, field trips, and various classroom items requested by teachers.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 20, 2008, the Chatfield School had invested \$6.4 million in a range of capital assets, including land, buildings, furniture, and equipment. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$92,814.

Chatfield School's Capital Assets (Net of Depreciation)

	2008	2007
Land	\$ 50,000	\$ 50,000
Buildings	5,422,252	2,568,003
Equipment and Furniture	65,359	66,306
Total	<u>\$ 5,537,611</u>	<u>\$ 2,684,310</u>

The Chatfield School constructed the Willows Earth Education Center at a cost of \$1.24 million. In June 2008, construction began on the middle school addition with an anticipated cost to total \$2.15 million with \$1.69 million spent as of June 30, 2008.

Long-term Debt

At year-end the School had a construction note with Lapeer County Bank & Trust Co., for the middle school addition. The maximum loan amount is \$2.3 million with the balance at June 30, 2008 at \$1.5 million. (See Note 14.)

FACTORS BEARING ON THE SCHOOL'S FUTURE

At the time these financial statements were prepared and audited, the School was aware of the following existing circumstances that could significantly affect its financial health in the future.

- Although the State has adopted a school aid budget providing for the 2008-09 school year, the uncertainty of the State's overall economy requires caution regarding the full payment of the legislated grants.
- The formula for determining the official student count for the current year requires merging the February count of the previous year with the current September count; the net result for Chatfield is that the enrollment count for the funding will be less than the real count.
- Chatfield School opened its Willows Earth Education Center in April 2008 and completed the grades 6-8 addition in August 2008. These additions will enhance the attractiveness of the Chatfield School as a school of choice for families in the future when the local school district opens its new middle schools.
- Although the improvements were needed for the future, the School Board did have to acquire mortgage financing for the expansion of the building for the additional grades; the Willows Center was financed from accumulated funds.
- Repayment of the mortgage will require an annual payment of approximately \$210,000 that will be the first obligation for each year's future budgets.

CONTACT THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrative Office, Chatfield School, 231 Lake Drive, Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

**CHATFIELD SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 84,697
Investments	727,767
Accounts Receivable	419,092
Prepaid Expenses	<u>1,915</u>
TOTAL CURRENT ASSETS	1,233,471
NON-CURRENT ASSETS	
Capital Assets	6,390,336
Less: Accumulated Depreciation	<u>(852,725)</u>
TOTAL NON-CURRENT ASSETS	<u>5,537,611</u>
TOTAL ASSETS	<u><u>\$ 6,771,082</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	\$ 256,813
Accrued Interest	6,517
Deferred Revenue	19,541
Current Portion of Note Payable	<u>33,639</u>
TOTAL CURRENT LIABILITIES	316,510
NON CURRENT LIABILITIES	
Non Current Portion of Note Payable	<u>1,508,417</u>
TOTAL LIABILITIES	1,824,927
NET ASSETS	
Investment Capital Assets, Net of Related Debt	3,995,555
Restricted for:	
Community Garden	9,322
Outdoor Classroom	9,905
Willows Earth Projects	25,000
Unrestricted	<u>906,373</u>
TOTAL NET ASSETS	<u>4,946,155</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 6,771,082</u></u>

The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS	
GOVERNMENTAL ACTIVITIES				
Instruction & Instructional Support	\$ 1,305,845	\$ -	\$ 69,694	\$ (1,236,151)
Support Services	684,601	26,481	44,867	(613,253)
Community Services	198,717	86,378	-	(112,339)
Interest on Debt	21,539	-	-	(21,539)
Depreciation (Unallocated)	92,814	-	-	(92,814)
 TOTAL GOVERNMENTAL ACTIVITIES	 <u>\$ 2,303,516</u>	 <u>\$ 112,859</u>	 <u>\$ 114,561</u>	 (2,076,096)
GENERAL REVENUES				
State of Michigan Aid Unrestricted				2,135,194
Investment Revenue				41,986
Miscellaneous				36,533
 TOTAL GENERAL REVENUES				 <u>2,213,713</u>
 CHANGE IN NET ASSETS				 137,617
NET ASSETS:				
BEGINNING OF YEAR				<u>4,808,538</u>
END OF YEAR				<u>\$ 4,946,155</u>

The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2008**

	GOVERNMENTAL FUND TYPES		TOTAL GOVERNMENTAL FUNDS
	GENERAL	CAPITAL PROJECTS	
ASSETS			
Cash and Cash Equivalents	\$ 27,146	\$ 57,551	\$ 84,697
Investments	373,465	354,302	727,767
Accounts Receivable	419,092	-	419,092
Prepaid Expenses	1,915	-	1,915
Due from Other Funds	-	-	-
TOTAL ASSETS	\$ 821,618	\$ 411,853	\$ 1,233,471
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
LIABILITIES			
Accounts Payable	\$ 112,587	\$ 144,226	\$ 256,813
Accrued Interest	6,517	-	6,517
Deferred Revenue	19,541	-	19,541
TOTAL LIABILITIES	138,645	144,226	282,871
FUND EQUITY AND OTHER CREDITS			
Unreserved			
Designated	19,227	267,627	286,854
Undesignated	663,746	-	663,746
TOTAL FUND EQUITY AND OTHER CREDITS	682,973	267,627	950,600
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	\$ 821,618	\$ 411,853	\$ 1,233,471

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Assets

TOTAL GOVERNMENTAL FUND BALANCES	\$ 950,600
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Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not financial resources and are not reported in the funds.

Cost of capital assets is	6,390,336
Accumulated depreciation is	(852,725)

Long-term liabilities are not due and payable in the current period and are not reported in the fund's Note Payable.	(1,542,056)
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 4,946,155</u>
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The accompanying notes are an integral part of the financial statements.

CHATFIELD SCHOOL
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	GOVERNMENTAL FUND TYPES		TOTAL GOVERNMENTAL FUNDS
	GENERAL	CAPITAL PROJECTS	
REVENUE			
Local Sources	\$ 176,014	\$ 34,047	\$ 210,061
State Sources	2,168,776	-	2,168,776
Federal Sources	62,296	-	62,296
OTHER FINANCING SOURCES			
Operating Transfers	-	304,000	304,000
Other Transactions	-	1,542,056	1,542,056
TOTAL REVENUE AND OTHER SOURCES	2,407,086	1,880,103	4,287,189
EXPENDITURES			
Instruction	1,305,845	-	1,305,845
Supporting Services	693,687	-	693,687
Community Services	198,717	-	198,717
Capital Outlay	-	2,937,029	2,937,029
DEBT SERVICES			
Interest	21,539	-	21,539
OTHER FINANCING USES			
Operating Transfers	304,000	-	304,000
TOTAL EXPENDITURES AND OTHER USES	2,523,788	2,937,029	5,460,817
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(116,702)	(1,056,926)	(1,173,628)
FUND BALANCE – JULY 1, 2007	799,675	1,324,553	2,124,228
FUND BALANCE – JUNE 30, 2008	\$ 682,973	\$ 267,627	\$ 950,600

The accompanying notes are an integral part of the financial statements.

CHATFIELD SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

Net Change in Fund Balance – Total Governmental Funds \$ (1,173,628)

Amounts reported for Governmental Activities in the
Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. In the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Depreciation Expense	\$ (92,814)	
Capital Outlay	2,946,115	2,853,301

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The effect of these differences is the treatment of long-term debt and related items and are as follows.

Proceeds from Bank Loans	(1,542,056)
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Change in Net Assets of Governmental Activities	\$ 137,617
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The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

	<u>TRUST & AGENCY FUND</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 15,112</u>
TOTAL ASSETS	<u><u>\$ 15,112</u></u>
LIABILITIES	
Due to Student Groups	<u>\$ 15,112</u>
	<u><u>\$ 15,112</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chatfield School conform to accounting principles generally accepted in the United States of America, as applicable to schools. The following is a summary of the significant accounting policies:

A. REPORTING ENTITY

The School is governed by a five-member Board of Education. The School is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the School and has contracted with the School to charter the public school through June 2012. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School's reporting entity, and which organizations are legally separate, component units of the School. Based on the application of the criteria, the School does not contain component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include; (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. State foundation aid and other unrestricted items are not included among program revenues but are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues soon as all eligibility requirements imposed by the provider have been met.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The School reports the following major governmental fund:

The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School reports the following fund types:

The *Capital Project Fund* accounts for the financial resources used for the acquisition or construction of major capital facilities.

The *Trust and Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The School first utilizes restricted resources to finance qualifying activities.

D. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

E. CAPITAL ASSETS

Capital assets include land, building and improvements, and furniture and equipment. Assets are capitalized if the initial cost exceeds \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Repairs and maintenance that do not add to the value or extend the lives of the asset are not capitalized. Construction work in process is not depreciated until placed in service. Depreciation is not computed on land. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Building and Improvements	25 – 50 years
Furniture and Equipment	5 – 20 years

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. FUND EQUITY

Reserved fund balances represent those portions of fund equity not available for expenditure or are legally segregated for a specific future use.

Designated fund balances are used to identify tentative plans for or restrictions on the future use of financial resources.

G. REVENUE

State Foundation Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the pupil membership counts taken in February and September of 2007.

The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30 is reported as accounts receivable.

State Categorical Revenue – The School also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Federal Revenue – Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

H. USE OF ESTIMATES

The process of preparing basic financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

I. COMPARATIVE DATA/RECLASSIFICATIONS—Comparative data is not included in the School's financial statements.

NOTE 2 – BUDGETS

The official budgets were formally adopted by the School Board, prior to the expenditure of funds for the General Fund, using the modified accrual basis of accounting consistent with generally accepted accounting principles. The budgets were adopted at the functional level and control was exercised at that level. Expenditures in excess of the amounts budgeted at the level of the adopted budget are a violation of the Budgeting Act. Unexpended appropriations lapse at year-end and encumbrances are not included as expenditures. The budget was properly amended by the School Board throughout the year, as needed.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – BUDGETS (Continued)

The budget statement (Budgetary Comparison Schedule) is presented on the same basis of accounting used in preparing the adopted budget. The budget information is a summary of the actual budget adopted.

NOTE 3 – DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

<u>Statement of Net Assets</u>	
Government-wide Financial Statement Captions:	
Cash and Cash Equivalents	\$ 84,697
Investments	727,767
<u>Statement of Fiduciary Net Assets</u>	
Cash and Cash Equivalents	15,112
TOTAL	<u>\$ 827,576</u>
 <u>Notes to Financial Statements</u>	
Deposits	\$ 99,777
Investments	727,767
Petty Cash and Cash on Hand	32
TOTAL	<u>\$ 827,576</u>

The School is authorized by Michigan Public Act 132 of 1986 to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled in an investment-related investment, income is allocated to each fund based on relative participation in the pool.

At year end, the School had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Comerica J Fund	\$ 727,767	Not Rated	N/A

Interest Rate Risk – In accordance with its investment policy, the School will minimize the interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School's cash requirements.

Credit Risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations.

Concentration of Credit Risk – The School will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. As of year-end \$16,059 of the School's bank balance of \$116,059 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk– Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School will do business.

Foreign Currency Risk - The School is not authorized to invest in investments which have this type of risk.

NOTE 4 – CAPITAL ASSETS

Capital assets activity of the School's Governmental Activities was as follows:

	Balance July 1, 2007	Additions	Deletions or Adjustments	Balance June 30, 2008
CAPITAL ASSETS				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Building & Improvements	3,178,472	2,931,388	-	6,109,860
Furniture & Equipment	215,749	14,727	-	230,476
	3,444,221	2,946,115	-	6,390,336
Accumulated Depreciation				
Building & Improvements	(610,469)	(77,139)	-	(687,608)
Furniture & Equipment	(149,442)	(15,675)	-	(165,117)
	(759,911)	(92,814)	-	(852,725)
NET CAPITAL ASSETS	\$ 2,684,310	\$ 2,853,301	\$ -	\$ 5,537,611

Depreciation expense was not charged to activities as the School considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 – RISK MANAGEMENT

The School has exposure to risks of loss due to torts, errors and omissions, and property loss. The School manages these risks by purchasing commercial insurance through the Employers Mutual Company.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 6 – EXPENDITURES AND APPROPRIATIONS

The following funds incurred expenditures in excess of appropriations (at budgetary levels).

	<u>Budget</u>	<u>Actual</u>	<u>Actual over Budget</u>
General Fund Interest	\$ 20,000	\$ 21,539	\$ 1,539

NOTE 7 – LEASED EMPLOYEES

On July 17, 1997, Chatfield School signed an agreement with Chatfield Management Corporation to lease all workers. Chatfield Management Corporation will be responsible for all wages, payroll taxes, and employee benefits, including health insurance and 401(k) contributions. This agreement is effective from July 17, 1997 to June 30, 2007. The agreement was extended to June 30, 2012.

NOTE 8 – COST SHARING AGREEMENT

Lapeer County Intermediate School District will act as a service bureau for the constituent districts for maintenance and support of their financial software.

NOTE 9 – OVERSIGHT FEES

The School pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the School's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2008, the School incurred expense of approximately \$63,821 for oversight fees.

NOTE 10 – DESIGNATED FUND BALANCE

In June 2000, a private donation was received in the amount of \$83,000. The remaining donation was designated to be spent as follows:

<u>AMOUNT</u>	<u>PROJECT</u>
\$ 9,322	Maintaining and Upgrading Community Gardens

Any interest earned or unexpended funds are to go to maintaining and upgrading the community garden.

In March 2008, Saginaw Valley State University donated \$10,000 to be used for the development of the outdoor curriculum. As of June 30, 2008, \$95 had been spent, leaving \$9,905 as a designated amount.

In February 2008, a donation was received for the Willows program. The Board has approved the construction of an amphitheater using boulders, which will begin in July 2008.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 11 – LEASE AGREEMENT

The School leased space from Charles Stewart Mott Community College for facilities at the Oakdale Center on Lake Drive for a child care program from July 1, 2007 to June 30, 2008 for \$890 per month. The lease was not renewed at June 30, 2008. The childcare program will be housed in the middle school addition.

In May 2006, the School entered into an agreement to lease a vehicle for 24 months for \$288 per month. When the lease expired, the School purchased the vehicle for \$14,727.

NOTE 12 – RELATED PARTY TRANSACTIONS

Michael Blazo is a board member and owner of Kirk Construction, Inc. Kirk Construction is the managing contractor for the Willows Building and the middle school addition and received payments totaling \$521,912.

Ralph McCreedy is a board member and co-owner of McCreedy Farms Landscaping & Lawncare, LLC. Landscaping was done by McCreedy Farms with payments totaling \$37,244.

NOTE 13 – CAPITAL PROJECT

In 2007, the School constructed the Willows Earth Education Center, a community nature center offering learning programs with a focus on ecology education, living history, the domestic arts, and community service. The project cost \$1,244,577.

In June 2008, the School began construction on a middle school addition, which will house 6th, 7th and 8th grades. The total project is expected to cost \$2,150,700. As of June 30, 2008, costs had totaled \$1,686,112.

NOTE 14 – NOTE PAYABLE

In November 2007, the Board signed a loan agreement with Lapeer County Bank & Trust Co., for a construction loan up to \$2.3 million for the purpose of constructing an addition to the building which shall house the 6th, 7th, and 8th grade classrooms. The loan agreement during construction calls for monthly payments of accrued interest on the amount of credit outstanding at an interest rate of 6.22%. The balance outstanding as of June 30, 2008 was \$1,542,056. The construction loan was for one year and matures November 21, 2008. The School has a letter of commitment stating that after the construction period, the permanent loan will have a term of 19 years with quarterly principal and interest payments based on a nineteen-year amortization. The interest rate will be fixed at 6.22%.

REQUIRED SUPPLEMENTAL INFORMATION

**CHATFIELD SCHOOL
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE				
Local Sources	\$ 133,700	\$ 195,600	\$ 176,014	\$ (19,586)
State Sources	2,090,973	2,164,073	2,168,776	4,703
Federal Sources	26,090	65,030	62,296	(2,734)
OTHER FINANCING SOURCES				
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SOURCES	2,250,763	2,424,703	2,407,086	(17,617)
EXPENDITURES				
Instruction	1,336,755	1,346,551	1,305,845	40,706
Supporting Services	681,049	843,660	693,687	149,973
Community Services	139,285	233,850	198,717	35,133
DEBT SERVICE				
Interest	-	20,000	21,539	(1,539)
OTHER FINANCING USES				
Operating Transfers	<u>279,000</u>	<u>304,000</u>	<u>304,000</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER USES	<u>2,436,089</u>	<u>2,748,061</u>	<u>2,523,788</u>	<u>224,273</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (185,326)</u>	<u>\$ (323,358)</u>	(116,702)	<u>\$ 206,656</u>
FUND BALANCE – JULY 1, 2007			<u>799,675</u>	
FUND BALANCE – JUNE 30, 2008			<u>\$ 682,973</u>	

The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
BUDGETARY COMPARISON SCHEDULE – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2008**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE				
Local Sources	\$ -	\$ -	\$ 34,047	\$ 34,047
State Sources	-	-	-	-
Federal Sources	-	-	-	-
OTHER FINANCING SOURCES				
Operating Transfers	279,000	304,000	304,000	-
Proceeds from Long- term Loans	<u>-</u>	<u>2,300,000</u>	<u>1,542,056</u>	<u>(757,944)</u>
TOTAL REVENUE AND OTHER SOURCES	279,000	2,604,000	1,880,103	(723,897)
EXPENDITURES				
Instruction	-	-	-	-
Supporting Services	-	-	-	-
Community Services	-	-	-	-
Capital Outlay	1,600,009	3,588,042	2,937,029	651,013
OTHER FINANCING USES				
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER USES	<u>1,600,009</u>	<u>3,588,042</u>	<u>2,937,029</u>	<u>651,013</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (1,321,009)</u>	<u>\$ (984,042)</u>	(1,056,926)	<u>\$ (72,884)</u>
FUND BALANCE – JULY 1, 2007			<u>1,324,553</u>	
FUND BALANCE – JUNE 30, 2008			<u>\$ 267,627</u>	

The accompanying notes are an integral part of the financial statements.

OTHER SUPPLEMENTAL INFORMATION

CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF REVENUE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
LOCAL SOURCES				
Interest from Investments	\$ 10,000	\$ 10,000	\$ 7,939	\$ (2,061)
Donations	1,000	34,200	34,200	-
Custody & Care of Children	82,000	72,000	77,130	5,130
Earth Education	25,000	30,000	26,126	(3,874)
Other Local Sources	7,700	41,400	21,371	(20,029)
Cafeteria	8,000	8,000	9,248	1,248
TOTAL LOCAL SOURCES	133,700	195,600	176,014	(19,586)
STATE SOURCES	2,090,973	2,164,073	2,168,776	4,703
FEDERAL SOURCES	26,090	65,030	62,296	(2,734)
OTHER FINANCING SOURCES				
Operating Transfers	-	-	-	-
TOTAL REVENUE	<u>\$ 2,250,763</u>	<u>\$ 2,424,703</u>	<u>\$ 2,407,086</u>	<u>\$ (17,617)</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
INSTRUCTION				
BASIC PROGRAMS				
Elementary				
Purchased Services	\$ 1,182,515	\$ 1,169,643	\$ 1,163,601	\$ 6,042
Supplies & Materials	60,500	64,500	44,737	19,763
Capital Outlay	3,000	3,000	-	3,000
Other Expenses	9,500	10,500	6,771	3,729
Total Elementary	<u>1,255,515</u>	<u>1,247,643</u>	<u>1,215,109</u>	<u>32,534</u>
TOTAL BASIC PROGRAMS	1,255,515	1,247,643	1,215,109	32,534
ADDED NEEDS				
Special Education				
Purchased Services	71,140	75,308	75,292	16
Supplies & Materials	100	1,600	1,237	363
Total Special Education	<u>71,240</u>	<u>76,908</u>	<u>76,529</u>	<u>379</u>
Enrichment Services				
Purchased Services	10,000	22,000	14,207	7,793
Total Enrichment Services	<u>10,000</u>	<u>22,000</u>	<u>14,207</u>	<u>7,793</u>
TOTAL ADDED NEEDS	<u>81,240</u>	<u>98,908</u>	<u>90,736</u>	<u>8,172</u>
TOTAL INSTRUCTION	<u>1,336,755</u>	<u>1,346,551</u>	<u>1,305,845</u>	<u>40,706</u>
SUPPORT SERVICES				
PUPIL				
Purchased Services	45,250	65,750	59,330	6,420
Supplies & Materials	-	-	-	-
TOTAL PUPIL	<u>45,250</u>	<u>65,750</u>	<u>59,330</u>	<u>6,420</u>
INSTRUCTIONAL (OUTDOOR CLASSROOM)				
Purchased Services	23,500	55,500	33,468	22,032
Supplies & Materials	3,500	9,000	4,326	4,674
TOTAL INSTRUCTIONAL	<u>27,000</u>	<u>64,500</u>	<u>37,794</u>	<u>26,706</u>
BOARD OF EDUCATION				
Purchased Services	15,000	18,000	12,977	5,023
Other Expenses	63,000	64,500	63,821	679
TOTAL BOARD OF EDUCATION	<u>78,000</u>	<u>82,500</u>	<u>76,798</u>	<u>5,702</u>
EXECUTIVE ADMINISTRATION				
Purchased Services	47,980	47,980	47,555	425
TOTAL EXECUTIVE ADMINISTRATION	<u>47,980</u>	<u>47,980</u>	<u>47,555</u>	<u>425</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
SUPPORT SERVICES (Continued)				
SCHOOL ADMINISTRATION				
Purchased Services	\$ 138,850	\$ 143,400	\$ 136,345	\$ 7,055
Supplies & Materials	26,000	35,000	25,081	9,919
Other Expenses	3,864	13,000	12,354	646
TOTAL SCHOOL ADMINISTRATION	168,714	191,400	173,780	17,620
FISCAL SERVICES				
Purchased Services	19,800	19,800	17,492	2,308
Supplies & Materials	1,500	1,500	652	848
Other Expenses	4,500	5,000	3,875	1,125
TOTAL FISCAL SERVICES	25,800	26,300	22,019	4,281
OPERATION & MAINTENANCE				
Purchased Services	196,775	194,335	163,624	30,711
Supplies & Materials	71,300	76,300	76,756	(456)
Capital Outlay	3,500	76,895	18,705	58,190
TOTAL OPERATION & MAINTENANCE	271,575	347,530	259,085	88,445
CENTRAL SUPPORT SERVICES				
Purchased Services	16,730	17,700	17,326	374
TOTAL CENTRAL SUPPORT SERVICES	16,730	17,700	17,326	374
TOTAL SUPPORT SERVICES	681,049	843,660	693,687	149,973
COMMUNITY SERVICES				
COMMUNITY RECREATION				
Purchased Services	5,000	5,000	5,795	(795)
TOTAL COMMUNITY RECREATION	5,000	5,000	5,795	(795)
CHILD CARE				
Purchased Services	73,500	105,500	104,604	896
Supplies & Materials	7,500	19,300	19,438	(138)
Other Expenses	985	985	225	760
TOTAL CHILD CARE	81,985	125,785	124,267	1,518
WILLOWS				
Purchased Services	38,000	90,565	58,729	31,836
Supplies & Materials	14,300	12,500	9,926	2,574
TOTAL WILLOWS	52,300	103,065	68,655	34,410
TOTAL COMMUNITY SERVICES	139,285	233,850	198,717	35,133

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2008

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
DEBT SERVICE				
Interest	\$ -	\$ 20,000	\$ 21,539	\$ (1,539)
TOTAL DEBT SERVICE	-	20,000	21,539	(1,539)
OTHER FINANCING USES				
Transfer to Capital Projects	279,000	304,000	304,000	-
TOTAL OTHER FINANCING USES	279,000	304,000	304,000	-
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 2,436,089</u>	<u>\$ 2,748,061</u>	<u>\$ 2,523,788</u>	<u>\$ 224,273</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

**CHATFIELD SCHOOL
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2008**

	<u>BALANCE JULY 1, 2007</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2008</u>
<u>ASSETS</u>				
CASH	<u>\$ 15,503</u>	<u>\$ 116,044</u>	<u>\$ 116,435</u>	<u>\$ 15,112</u>
 <u>LIABILITIES</u>				
DUE TO STUDENT/ OTHER GROUPS	<u>\$ 15,503</u>	<u>\$ 116,044</u>	<u>\$ 116,435</u>	<u>\$ 15,112</u>



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Education
Chatfield School
Lapeer, Michigan 48446

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School, as of and for the year ended June 30, 2008, which collectively comprise Chatfield School's basic financial statements, and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chatfield School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chatfield School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Chatfield School's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Chatfield School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Chatfield School's financial statements that is more than inconsequential will not be prevented or detected by Chatfield School's internal control.

We consider the following deficiency to be a significant deficiency in internal control:

Lack of adequate controls to produce full-disclosure GAAP financial statements.

Requirement: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of Chatfield School's management. The preparation of financial statements in accordance with GAAP required internal controls over both; (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: Chatfield School, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, Chatfield School's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Effect: The result of this condition is that Chatfield School lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Chatfield School's internal control.

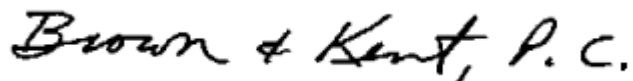
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chatfield School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Chatfield School, in a separate letter dated October 24, 2008.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

October 24, 2008

To the Board of Education
The Chatfield School
231 Lake Drive
Lapeer, MI 48446

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School (the School) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Chatfield School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We consider the following deficiency to be a significant deficiency in internal control:

Lack of adequate controls to produce full-disclosure GAAP financial statements.

Requirement: All Michigan school districts are required to prepare financial statements in accordance with generally accept accounting principles (GAAP). This is the responsibility of the School's management. The preparation of financial statements in accordance with GAAP requires internal controls over both, (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The School, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, The School's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

Effect: The result of this condition is that The School lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

We would expect this comment to continue from year to year. We do not recommend any changes to this situation at this time and communicate that as required by professional standards.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that we consider to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

The following comments relate to some of the School's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered control deficiencies or material weaknesses as defined by professional standards. This letter does not affect our report dated October 24, 2008 on the financial statements of Chatfield Schools.

RECONCILIATION OF INVOICE TO CHECK WRITTEN – During our audit process, we identified a couple of checks that had invoices attached to them that were for amounts higher than the amount the check was written for. Upon investigation, it was determined that checks had been written prior, that reduced the amount due to the vendor. We recommend that clear notes be indicated on any invoice as to the reason the check being written is different than the amount indicated on the invoice.

This communication is intended solely for the information and use of management, Board of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank the Board for the opportunity to serve as auditors for the Chatfield School. We would also like to thank the directors and staff for the courtesy and assistance provided to us during our audit. Please contact us, if you have any questions regarding these or any other matters.

Brown & Kent, P.C.

Certified Public Accountants

October 24, 2008